

OBSERVATIONS

ON THE

ESTABLISHMENT

OF THE

Bank of England, &c.

PRICE 1s. 6d.

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1797

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BANK OF ENGLAND,
AND ON
THE PAPER CIRCULATION
OF THE
COUNTRY.

BY SIR FRANCIS BARING, BART.

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CHURCH

OBSERVATIONS, &c.

THE sudden changes, and even convulsions, which circulation and commercial credit have experienced since the commencement of the year 1793, will serve as an apology, I trust, for an endeavour to draw the public attention to measures of foresight and precaution.

Circulation, as the word implies, must have a pivot or centre on which the whole can turn ; and that centre, as far as relates to the island of Great-Britain, is the Bank of

B

England;

England; whose paper or notes represent that object, for every useful or beneficial purpose.

The prosperity which this country has enjoyed, the wealth and resources which it possesses, having been attributed, in a great degree, to the establishment of the Bank, (although, in truth, much more has been owing to its constitution) some individuals, for the sake of relieving their own distresses, and to furnish the means for wild speculations, have made a great noise about the circulating medium; endeavouring to inculcate an idea, that if so much trade and prosperity attached to the amount of Bank Notes formerly in circulation, the issue of Bank Notes ought to be increased at present, in proportion to the actual extended trade of the country.

Their object was, not to multiply Bank Notes for the purpose of general circulation,
nor

nor for the use of the public, but solely to increase commercial discounts ; under cover of which they expected their purpose would have been answered. They therefore founded an alarm as to the want of a circulating medium ; and, as the term was not generally understood, whilst it held forth an expectation of relief to pecuniary distress, so many joined in the cry as to create serious apprehensions in the minds of the sober impartial part of the community. Any thing may become a circulating medium ; paper is as good a representative sign as gold, and in many instances it is better,---because it is more easy to manage and to transfer ; but then it must be understood, that with a correct knowledge of the basis on which such paper is founded, it enjoys the most perfect confidence : in which case, the only difference consists in such paper being the circulating medium for the country where it issues ;

whilst gold or silver are the circulating mediums in every part of the world,---for both are no more than representative signs.

If there were more gold than was wanted, confidence in it, as a representative sign, would slacken, and it would no longer become a circulating medium: If Bank Notes were augmented, so as to be sold at a discount, confidence would vanish, and those Notes be no longer a circulating medium.

It would be desirable, for the purpose of probing this question to the bottom, to ascertain what proportion the issue of Bank Notes has borne to the gradual increase of the Commerce of the Country, although the disclosure would not be prudent in other respects :---but I cannot think it possible for the one to require an augmentation of the other in an equal degree; and it remains to be

be proved that the amount of Bank Notes, before the war, did increase in proportion to the increased trade of the country, before the necessity can be admitted for an augmentation to the circulating medium, in consequence of the large addition to our trade during the war, although such addition is accidental and temporary.

If it shall be urged that such a discussion is become unnecessary, for that no such clamor exists at present; I must answer, that it is impossible to understand the principles upon which the Bank of England is established, the nature of its public and private interest, and more particularly to appreciate the real situation of the country in respect to the paper circulation, without entering into some details and explanations with regard to past occurrences; and I must further request, that my readers will always recollect, that the Bank

never did absorb the whole of any operations or circulations : the Bank must be considered solely as the centre or pivot, for the purpose of enabling every part of the machine to move in perfect order ; sometimes by furnishing an addition to the powers necessary to enable that machine to perform its functions, and at others, by receiving back those powers which are superfluous ; and although such a position must consequently be limited, yet its importance to the general welfare evinces a necessity of preserving to the Bank a capacity of acting with effect, and without delay, in both those cases.

The operations of the Bank may be considered under three distinct heads :

The first and most important relates to the GENERAL CIRCULATION OF THE COUNTRY.

The

The second---ITS TRANSACTIONS WITH
GOVERNMENT BY LOANS, PAYMENT OF
DIVIDENDS, &c.

The third---COMMERCIAL DISCOUNTS.

If it shall ever become a question to sacrifice a part to save the rest, I can have no doubt but that the general circulation of the country ought to have a decided preference ; and if ever the Bank shall be reduced to that dilemma, and that the administration of their affairs shall then be correct and pure, their solidity will rest on a rock beyond the possibility of being shaken. We have already experienced the facility with which Government can liquidate a part of their loans ; and they could discharge the whole, if necessary, without producing any convulsion in the country. I do not know the amount of the bills discounted by the Bank for commercial purposes nominally ; but when the state of their affairs was laid before Parliament, the
amount

amount could not have been large ; at least it must have borne a small proportion to the commerce and solid circulation of the country ; but if the amount of paper discounted for fictitious and stock-jobbing purposes shall be deducted therefrom, the remainder will bear a very small proportion indeed to the whole ;---and therefore the commerce of the country would not receive a fatal blow if the Bank should decline discounts altogether, unless it was done abruptly ; especially, as it would not be difficult to provide resources for the solid part of the commerce of the country in the case of such an event:---but, as we have experienced a capacity on the part of the public to discharge their loans without much difficulty, if the Bank could be liberated from their commercial discounts in case of need, with equal facility, their notes would then become really and *bona fide* the representation of coin or bullion.

These

These subjects are no doubt gloomy, and I may be blamed for having mentioned them ; but whilst we are disposed to adopt half measures, every thing may be apprehended ; and therefore it is right to look forward, to point out the consequences, and at the same time to suggest such means as occur to prevent, or alleviate, those which are pregnant with danger. In this respect it is proper to consider what would be the result if the Bank were annihilated, in consequence of confidence in their paper being destroyed.

The convulsion would no doubt be great, the difficulty and distress incalculable, but the country would not be ruined. The existence of the Bank depends no doubt on that of the country, but the reverse is by no means the case. If the fall of the Bank should be owing to the misconduct of its Directors, the calamity would be great ; however, in a

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short

short space of time, a remedy or substitute might be found, to answer many very substantial purposes. But if its miscarriage should arise from the operations or interference of Government, confidence must vanish, and its restoration in any shape or form become impracticable.

Very few foreigners have understood the principles on which the Bank is established; they have always considered their Notes as Government paper, and the experience they have had of the practice of Governments in every country, induced them to suppose that when gold was refused on the presentation of the Notes, the Bank and the country were equally ruined. They could not distinguish between paper issued for the sole purpose of circulation, limited in its amount, and under the authority and responsibility of a corporate body, absolutely independent,—and that paper which

which Government could issue *ad libitum*, bearing an interest, which rendered it an object for persons to purchase as a productive investment of their capitals;—they were very much astonished to find the total amount of Notes in circulation to be so small, compared with the commerce and wealth of the country; and equally so, that after all, Bank Notes continued to circulate at par. Those opinions, however, did not prevail at home, for the knowledge of the sources from whence those Notes issued, namely, deposits of bullion, loans to Government, and commercial discounts, together with the confidence reposed in the Directors, from the manner in which they represented the consequences of those pernicious measures which were then pursuing,—and the resistance they finally made to the expectations of the Minister, when the case absolutely required it,—induced the public to place sufficient

reliance in them, under such conduct, and with such responsibility; the more so, as the personal attachment of a very large majority of the Court of Directors to the present Administration was well known, and for whom the powers of the Bank had been stretched in a certain degree.

From long experience, the Directors of the Bank must understand correctly the amount to which their Notes can circulate without depreciation or discount; and although they acted very wisely at the awful moment to issue a larger sum than usual, yet the event has proved, that they have conducted themselves with equal judgment, by not extending their issues beyond what the currency of the country requires, and can support.

It was from a combination of these, and some other circumstances, not necessary to be

be mentioned at present, but more particularly from a confidence in the conduct of the Directors, as a corporate body, that they would maintain and preserve the independence of the Bank in their transactions with Government, notwithstanding the partial influence which now and then prevailed,---that their Notes continued to circulate at par, with the same facility and convenience to the public as before, and that confidence was restored to a degree much beyond what could have been expected ; whilst, however, the slur must remain, and never can be effaced.

As the circulation of the Bank of England, although the most important, doth not form the largest part of that of the country in general, it becomes necessary to take a more comprehensive view of the subject, in order to entertain a correct opinion of the whole. The establishment of Country Banks is of modern date,

date, and within my recollection; but I believe there was no material convulsion, with regard to circulation, from the Rebellion, until that which happened by the failure of the Air Bank, in the year 1772. This failure was accompanied with others of great extent at the same time in Holland;---but as it was evidently a partial, and not a general convulsion, the Bank of England acted very wisely, by affording even a liberal support to those houses whose solidity was unquestionable, leaving others which were rotten, to fall; and as they were swept away, confidence was gradually restored. The next check to commercial credit arose from the failure of a circulation established between Lancashire and London, well known in the courts of law by the case of *Gibson v. Johnson*, which has been so often tried; but, although the amount was large, it moved in so narrow a line, that it produced no general effect on the country.

What

What happened in the beginning of 1793 was, however, very different : far beyond any thing which preceded, or has followed it, in magnitude, it pervaded, more or less, every part or place in both islands, and affected every description of property. The last, and most important event, in one respect, is that which compelled the Bank of England to suspend their payments.

During the interval between the failure of the Air Bank, and the distress of 1793, a very material change had taken place in regard to the general circulation : Banks had been established in almost every town, and even in villages, throughout the country ; and in the larger towns rival establishments were formed. These produced a most important, and whilst it was secure, a beneficial change to the country, by increasing its circulation : but unfortunately the principles on which those

Banks were usually established, were insecure, in their being compelled at all times to invest or employ the deposit left in their hands, and thereby rendering themselves incapable of facing a sudden storm, or, as it is called, answering a run upon them, which, from natural events, must, in a course of time, arise. A Banker in London never allows interest to his customers, and can afford to reserve a proportion of his deposits, to enable him to answer sudden demands, or a run on his house ; as he thereby sustains no real loss, but only diminishes the amount of his profit. The country Banker is in a very different situation, for he allows interest on deposits, and therefore he cannot afford to suffer even a small sum to remain dormant and unproductive ; for every 100l. which he suffers to remain in that predicament, is a loss of the interest which he pays to his customer, and which interest he must get reimbursed
(by

(by investing the money) before he can realise any profit for himself. Thus it will appear, that whilst the circulation was greatly increased, and its beneficial effects enjoyed, by the commerce, manufactures, agriculture, &c. of the country, it was founded on the most insecure principle, and liable to almost instantaneous convulsion, by unforeseen, and even trifling circumstances. This might be promoted, more or less, by the practice of particular establishments; for if Country Banks, whose principals are men of large unquestionable property, should fail, the contagion will immediately spread, and the consequences are incalculable. Thus, for instance, in the beginning of the year 1793, and of the present year, the Banks of Newcastle stopt payment, whilst those of Exeter and the West of England stood their ground. The partners in the Banks of Newcastle were far more opulent, but their

private fortunes being invested, could not be realised in time to answer a run on their Banks. Their Notes allowed interest to commence some months after date, and were then payable on demand ; by which means they had not an hour to prepare for their discharge. The Banks at Exeter issued notes payable twenty days after sight, with interest to commence from the date of the Note, and to cease on the day of acceptance. There can be no doubt but the practice of the Banks at Newcastle is more lucrative, whilst it must for ever be liable to a return of what has happened. The twenty days received at Exeter furnishes ample time to communicate with London, and receive every degree of assistance which may be required. It is therefore most earnestly to be wished, that a law should pass, to prevent Country Banks from issuing Notes payable on demand, as they never can be in a situation to pay
4 without

without some notice ; and the country ought to be protected against those convulsions which have arisen, and will continue to arise from such a practice.

Another circumstance contributed very materially to produce the distress of 1793, which was the sudden, unexpected declaration of war. That dreadful calamity is usually preceded by some indication which enables the commercial and monied men to make preparation. On this occasion, the short notice rendered the least degree of general preparation impossible, and which may be ascertained by the prices of stocks in the preceding month of October, and various collateral circumstances. The foreign market was either shut, or rendered more difficult of access to the merchant ; of course he could not purchase from the manufacturer ; and an important variation in

the rate of exchange on the Continent, furnished a pretence to foreigners to withhold their remittances from both. The manufacturers in their distress applied to the Bankers in the country for relief; but as the want of money became general, and that want increased gradually by a general alarm, the country Banks required the repayment of old debts, being utterly incapable of increasing them, and which of course brought their own situation to the test.

In this predicament the country at large could have no other resource but London; and, after having exhausted the Bankers, that resource finally terminated in the Bank of England. In the mean while, the alarm in the country continued to increase; confidence in their Banks vanished; every creditor was clamorous for payment, which he insisted should be made in gold, and which was complied

complied with, until the Bankers in London were exhausted. At first the Bank accommodated themselves to the circumstances, and furnished large supplies; but unfortunately the Directors caught the panic; their nerves could not support the daily and constant demand for guineas; and for the purpose of checking that demand, they curtailed their discounts to a point never before experienced, and which placed every part of the commerce of the country in a considerable degree of danger. This dreadful convulsion (for it really was so at the time) was occasioned by the erroneous principle upon which country Banks are established, and that principle operated upon in the manner I have described. I can readily believe, that under all circumstances it might then have been right for the Bank to lessen the amount of their discounts, or to lessen the amount of the accommodation which individuals had been

been accustomed to receive, but then it ought to have been gradual ; their determination, and the extent to which it was carried, came like an electrical shock.

In such cases the Bank are not an intermediate body, or power ; there is no resource on their refusal, for they are the *dernier resort*. The laws against usury effectually destroy every other means of relief in this country, whilst experience has proved, at Hamburgh, at Amsterdam, and other places, that the most effectual mode of keeping the rate of interest low, is to leave it free from every restriction. But this point has been very fully discussed by Mr. Bentham, in a small tract, entitled “ A Defence of Usury,” which has never been answered, because in truth it is unanswerable. As the determination of the Bank was founded upon the demand which came from every quarter of the country for guineas, I
must

must beg leave to add some remarks on that subject. I do not mean to offer those remarks for the information of the Directors, as they are no doubt well informed on the subject; nor do I pretend to arraign their conduct, as circumstances may have existed to justify their proceedings, although it may be improper to disclose them publicly. I can reason only upon what is generally known, and upon those principles in which I am persuaded the Directors will agree.

For the present purpose, it may be sufficient to confine the considerations, as to the cause of the demand for guineas, to three heads :

First, As a Medium of Remittance to foreign parts, to supply the want of Bills of Exchange.

Second,

Second, For the purpose of Hoarding in the country, from a want of confidence in the Government, and in the circulating paper.

Thirdly, To enable Country Banks to discharge their demands, whilst confidence in the Government, and in the Bank of England remained entire and perfect.

The first is the most dangerous, as being the most injurious to the country; every measure ought to be taken to palliate or prevent it, prohibitions or bankruptcy excepted; but it is inevitable, if we shall continue for a long time to have more to pay to foreigners than we receive from them; or, in other words, if the Balance of Trade is against us.

The

The Second is the only circumstance which can in any measure justify the late bankruptcy; but I wish to reserve this point for future consideration.

The Third ought to be viewed, not with perfect indifference, but with a disposition on the part of the Bank to supply almost their last guinea; as they cannot be sent abroad, but must return again to their own coffers, as proved to be the case in the year 1793.

It was notorious, at the time, that large quantities of gold and silver were received from France; of course none could be sent thither.

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The following calculation will serve for
Amsterdam, viz.

100 guineas cost, with freight,	
insurance and charges, - -	£106 13 0
Sold at $f12$ each, is $f1200$,	
agio $100\frac{1}{2}$ per cent. is banco	
$f1193, 11$, and at the	
average exchange of 38 6	
from January to March 1793,	
is - - - - -	£103 6 9
Loss - - - - -	£3 6 3

The price of guineas at Amsterdam was
invariably $f12$, from January to the 12th
April, 1793; but guineas were hardly ever
in sufficient quantity in Holland to become an
object of trade, until the British troops
landed in February, 1793.

The

The calculation for Hamburgh appears still more unfavourable.

100 guineas cost, with charges £106 13 0

They contain, in ducat gold,

at Hamburg, 225 ducats, at

96½ banco per ducat, is

marks banco 1357, at the

average exchange of 35, 3 £102 10 6

Loss - - - - - £4 2 6

The price of 96½ is the par for a ducat, which was about the average price for January, February, and March, 1793.

In this situation of the foreign exchange, it was impossible that the coin of the country could have been exported: individuals will not act contrary to their own interest, which

operates in such cases more effectually than acts of parliament ; and is in reality the only wise restriction which ought to exist, in a country so much dependent on its trade. Individuals must pay freight, insurance, brokerage, and some small expences, in addition to the loss on the price ; so that no impartial person can entertain apprehensions for a moment, under such circumstances. The export of foreign gold and silver ought always to be free, and the Bank ought to supply the demand, whenever it shall arise ; under a certainty that the export will produce a beneficial effect on the course of exchange, and thereby ensure its return, (provided the balance of trade is in our favor) with additional profit. The coin of the country may, however, be in a different situation ; but on this subject I will not enter, as it will require a volume to discuss. If the balance is against us, whether arising from

from our trade, or as the result of subsidies paid to foreign powers, that balance must be paid in gold or silver; and if there is not sufficient foreign bullion in the country for the purpose, guineas must and will be sent, or Bank Notes will be reduced to an enormous discount: it is in vain to prohibit what cannot be hindered; the severest law will only tend to throw that profit into the pocket of the smuggler, which would otherwise belong to the fair trader.

I must distinguish, however, between that drain which is the result of a balance against the country, and forced operations for temporary purposes, which Government, with the aid of the Bank of England, can more or less prevent. Thus for instance, at the commencement of the French revolution, the Comptroller-General endeavoured to draw silver from hence, and from other places, to
serve

serve temporary purposes at Paris, which the Minister stopped. If his object was to benefit this country, or to distress the finances of France, he ought to have encouraged and promoted such operations; or, which would have been most effectual, he ought to have remained a silent spectator. Such was the state of the exchange at the time, that each operation cost $12\frac{1}{2}$ per cent. and as those operations could have been performed four, five, perhaps six times in the course of a year, the benefit to this country, and the loss to France, could only have been limited by the extent of the powers of the latter; and which must in time be exhausted, when 100l. sent from hence in silver shall be found to return in two, or at most in three months, with an addition of 12l. 10s. for profit. Such operations would have produced a real effect without the aid of acts of parliament, or the hand of power; whilst the wild and ignorant speculations

speculations on the consequences of the assignats and mandates of France, have vanished in smoke.

I trust that I have said enough to prove, that in the beginning of the year 1793, when the foreign exchanges were favorable, and that no disposition existed in the country to hoard, from a confidence in the Bank of England; whatever may have been the demand for guineas, they could not be sent out of the kingdom, but must return to the place from whence they came.

If any doubt shall exist on the subject, I should desire to produce an indirect, but collateral proof, in the novel and very extraordinary measure which was brought forward at the time, to relieve the public distress; I mean the Commercial Exchequer Bills for five millions sterling, voted by
parliament

parliament for the purpose ; a measure which was attended with complete success. This success, however, has served unfortunately for a precedent to introduce a similar measure as a job, or for partial purposes. At this time the distress was universal in England, Scotland, and Ireland ; the capital felt it in an equal degree ; and the Bank must have participated ; for nothing short of real distress could justify their conduct towards the country at large, and the cordiality with which they concurred, in having recourse to so extraordinary a measure for the purpose of general relief. Those Exchequer Bills were voted for the use of the general circulation ; and the Commissioners were active and anxious to disperse them in every quarter to which they could be applied with security and effect. The event proved that their endeavours fully answered the intention of the legislature ; for in a space of time scarcely

credible,

credible, confidence was completely restored, money became plentiful, and the commission was terminated with a profit to the public, after every expence had been defrayed.

A most unexpected discovery, however, was the result of this extraordinary measure; namely, the very extensive and important effects which may be produced from a cause comparatively trifling. The circulations from the Air Bank, and from Holland, in 1772, were very large. Those from Lancashire, mentioned before, were, I think, to the amount of about two millions: but it was now found that the universal distress in which every part of the three kingdoms was involved, and even the Bank of England itself, could be completely and effectually relieved by so small a sum as two millions one hundred thousand pounds sterling; which was about the amount of the Exchequer Bills

issued on this important occasion. A single drop of oil (and the sum of two million one hundred thousand pounds, when compared with the property and circulation of the country, is no more than a drop) withheld from the main spring or pivot on which a great machine turns, will disorder the whole. It must be evident that the Bank of England, in its relative position with respect to the country, is, what I have described before, a pivot or centre, on which the general circulation depends; and however important in that respect, may be removed or substituted, without entailing the certain, positive destruction of the country.

These delicate subjects require investigation at a period when the frenzy of temporary distress will catch at every straw for relief: it has been urged with a degree of plausibility, “ Why not enable the Bank, by
 “ means

“ means of an adequate additional capital, to
 “ supply every demand which shall arise from
 “ commercial distress, and to face every
 “ storm ?” or, “ Why not establish new and
 “ rival Banks for those purposes ?”

To the first I answer, the Proprietors of Bank Stock will never consent to take upon themselves the expence and risk of increasing their capital, only because great and unforeseen distress has arisen to the public in the beginning of 1793 and of 1797. They will ask, how could such additional capital be employed, and what profit would it produce in the years 1794, 1795, and 1796 ? Nor can the public expect such exertions on the part of the proprietors, when the subject comes to be thoroughly explained : especially as the public may at all times relieve the commerce, by reducing the amount of their loans at the Bank, and their floating securities

in the market. I beg however to be understood, that I am not an advocate for making too great sacrifices to what is called commercial discounts; because I know, that under such pretence, much of the accommodation furnished by the Bank, has been absorbed occasionally by stock-jobbers, and improper speculations.

The second question requires some explanation; and although a part of what I shall have to say belongs more properly to the bankruptcy, yet I will bring the whole into one point of view, for the purpose of preserving the subject entire, and also to avoid repetition.

An honorable Baronet, (Sir William Pulteney) in a very able and ingenious speech, at the close of the last session of parliament, urged the propriety and facility of establishing
a rival

a rival Bank, in case the Bank of England could not reassume their payments on a fixed day. I do not mean on this occasion to attempt to answer his speech, but solely to point out those obstacles, which, under the present circumstances, in my humble opinion can not be surmounted. I must confess that I do not consider the Bank refusing to recommence their payments on any fixed day, to be sufficient ground for a forfeiture of their charter. An enquiry must first be made into the cause of such refusal; and, if it shall be found that Government has been the real cause of their bankruptcy, however culpable the Directors may appear in the eyes of their constituents, yet the company are neither criminal nor culpable; and in such a case it would be the height of injustice for the public to deprive them of their charter,---provided the Proprietors of Bank Stock do not, by approving of the conduct of their Directors, make it their own.

Suppose,

Suppose, however, that a rival establishment should be permitted; common justice requires, that the debt due from the public to the company should be first discharged. It amounts to near twelve millions, and is lent to the public at an interest of 3 per cent. per annum, being 360,000*l*. If the Proprietors, on receiving payment of their capital, shall invest the same in the 3 per cent. consols, it would amount to twenty-four millions of capital, producing annually 720,000*l*. The Proprietors probably would not make any very serious objections to such an arrangement; but I doubt whether the public would feel disposed to pay so enormously for an experiment only, or that the Chancellor of the Exchequer would be very much pleased with an addition of 360,000*l*. annual taxes, to the amount of what the current service of the year requires.

But whether the present Bank remains or retires, no new establishment can be suffered to enter the lists, unless upon terms equally advantageous to the public, and with powers capable of performing equal service. It is therefore fair to ask from whence, or by what means, is such a combination to be formed? Can it be supposed that a real capital of twelve millions can be raised, in the first instance, when it is known that the whole must be lent to Government at an interest of 3 per cent. per annum, thereby reducing the value of their capital, at the market price, six millions sterling at one stroke? and I confess that it is beyond my skill in arithmetic to calculate the possibility of profit under such circumstances. I do not deny that subscribers may be found, of which we have an instance in the Air Bank, if the managers of the new establishment will promise an accommodation of 200l. for every 100l. subscribed; namely,

100l.

tool. to make good the subscription, and the same sum for other purposes ; in such case, indeed, there is no doubt but that subscribers will appear in abundance.

It is proper for me to mention further, that I differed essentially in opinion from the Honorable Baronet, in the principle for which he contended. The difficulty arose from a want of coin or bullion : paper was already too abundant, and measures had been adopted to reduce the quantity, which were proceeding gradually and with success. The old Bank could augment its paper *ad infinitum*, if that was the object ; but the country was smarting under its pressure, and called for a reduction. A new establishment could not add one single guinea to those in circulation, (and the distress arose solely from the want of guineas) but could only increase the difficulty, and add fuel to the flame, by an
 emission

emission of more paper ; which must by degrees have led to a second bankruptcy, before it was possible to surmount the consequences of the first.

To the charter of the Bank of England this country is indebted in a high degree for the prosperity she has enjoyed ; and to a clause in that charter, which prohibits any other establishments of a similar description, we may look as to a shield, to protect us against projects, such as those of the South Sea, the Mississippi, the Air Bank, &c. &c. It ought to prove a decisive answer to every new plan, for an increase of paper by means of a new Bank, that the Bank of England can, and must, issue to the full extent which the circulation of the country can support with safety ; for their charter obliges them, and it is their interest to do so. If an addition is made by the means of a new establishment, the paper

of one, perhaps of both Banks, must suffer a depreciation, and cannot circulate at par.

Paper, as a circulating medium, is more than convenient ; for in these enlightened times it is necessary, and even indispensable. The difficulty arises from the consequences which result from the two extremes : in the case of too great an excess, depreciation, distress and convulsion must follow ; but, if too much curtailed, the exertion and industry of the country is chilled, or palsied, and its growing prosperity thereby prevented. The Bank of England, from their central position, are most fortunately placed to form a correct judgment on this subject, and the amount of their Notes in circulation will constitute a perfect barometer, resulting from long experience and practice.

The

The tranquillity, confidence, and general prosperity which succeeded the first six months of the year 1793, and continued for those of 1794, 1795, and part of 1796, was wonderful: during those periods it frequently happened that money could not be employed at an interest of 4 per cent. per annum. I have very little doubt about the causes which produced this happy effect, but their discussion is unnecessary for the present: it is sufficient only to observe, that money became scarce towards the end of 1796, and that the Bank stopt payment in the beginning of 1797.

This very sudden transition from plenty to scarcity, from scarcity to distress, and from distress to bankruptcy, could arise from no common cause;--indeed all convulsions in the circulation and commerce of every country must originate in the operations of government, the plans of ministers, or in the
mistaken

mistaken views and erroneous measures of
 those possessing the power of influencing
 credit and circulation; for they are not
 otherwise susceptible of convulsion; and if
 left to themselves, they will find their own
 level, and flow in one uniform stream. The
 famous answer of the merchants of France, to
 the minister of Louis the XIVth, is often
 quoted, and its truth universally acknow-
 ledged, “ Let *us* alone.” It is in the mouth
 of every minister, but with a slight alteration,
 “ Let *me* alone;” by which means it is used
 as a ladder to private ambition, or for some
 great political operation; in both which cases
 the commerce and the country equally suffer.
 There is no doubt but that the prosperity of
 the country is in a great measure owing to its
 flourishing trade; but deep reflection will
 carry conviction to a strong mind, that the
 commerce of every country will flourish the
 more, as it is preserved separate and distinct
 from

from ministerial plans of political arrangement. Every attempt to blend these endangers the respectability and character of the nation. How much more dignified should we have appeared, for instance, in the eyes of Europe, if, in the conduct of the present war, the most prominent feature had not been a pursuit of plunder.

When the French party was prevalent in Holland, in the year 1787, the ambassador, (at the suggestion of the leaders of the party) offered to the merchants, to make any alterations for the purpose of introducing further commercial advantages into the treaty between the two countries. Such alterations would, no doubt, have furnished materials for many fine declamatory speeches; but the merchants were too wise to be so easily caught,---their answer was, "Let the treaty alone."

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My object, in making these remarks, and which may be considered as a digression from the subject, is to state distinctly, that whenever the hand of power interferes in the circulation or commerce of the country, it always proves injurious, and sometimes destructive,

For the last six months of the year 1793, the whole of 1794, and until the close of 1795, money was as plentiful as in time of peace; but some slight appearances begun then to arise, which were very much increased in the spring of 1796. In former wars it had been the practice of ministers to form a combination of the most respectable monied men, to contract for the loan for the year; under an opinion, that as they possessed the powers, they would support and carry through the engagements they had undertaken to perform. On this occasion a set of gentlemen were
selected

selected by the minister, who did not possess those powers; as they had recourse to circulations, operations on foreign places, and other expedients, to enable them to make good their payments; which produced some effect on the course of exchange, but still more on the rate of interest in the country, which was soon pushed beyond what is allowed by law to be received; as the merchants, manufacturers, &c. can pay no more than 5 per cent. per annum, and as money was not to be obtained at that rate in the market, they were driven once more to the Bank as a *dernier resort*. In the meanwhile the calm and confidence which had reigned so long within the walls of the Bank, was materially disturbed, in consequence of the increased amount of foreign subsidies, and remittances to the continent, for the public account: these had increased beyond the capacity of the current circulating paper to supply,

supply, and therefore could not be melted down in the course of the year, by means of the balance of trade ; but must be liquidated with gold and silver alone. How far those operations were conducted with common skill and judgment, I will not attempt to discuss, but shall confine myself solely to the effects they have produced. At first, and indeed for many months, the Bank acted in such a manner as to satisfy the public, and to keep the country quiet ; but the demand for guineas must have been enormous : this will soon be understood from the following calculation of the profit to be obtained on exporting them to Hamburgh, in the months of January, February, and March, 1796.

The price of Gold abroad had advanced to $99\frac{1}{4}$ per ducat, which for 100 guineas makes

1402--12

1402--12 marks banco, and at the average
exchange of those months 32-3 is £ 115 9 9
Deduct the cost as before 106 13 0

Profit - - £. 8 16 9

But as this was the highest price, it may be
proper to quote the average of each month in
1796.

	Exchange in London.	Price of Gold in Hamburgh	Produces on Exchange	Profit
In January	31--8	97 $\frac{1}{2}$	34--2	7 $\frac{1}{2}$
February	32--8	99 $\frac{5}{8}$	34--10	6 $\frac{1}{2}$
March	31--11	99	34--8 $\frac{1}{2}$	8 $\frac{3}{8}$

With such documents in the possession of
every foreign Merchant, there is no occasion
to ask a question either of the Minister or of
the Bank: there must exist some forced
unusual operation, by which the country was
drained of its bullion, and of its coin, beyond
a possibility of continuing for any length of
time ;

time ; and this drain was in a great degree the Imperial Loan, aided by some other collateral circumstances.

As the public attention was particularly drawn to the Imperial Loan at the time, and as it formed the prominent feature in the remonstrances from the Bank, it has been considered as the sole cause of the general embarrassment. I wish therefore to explain, that it was the magnitude of the sum, not the description of service, which created the difficulty. It must be indifferent to the country, if bullion is exported, to what service it shall be applied ; but it is of infinite importance, whether the magnitude of the sum shall exceed, or fall short, of the balance of trade. Whether money so exported shall be applied to the payment of the British troops in Germany, for the foreign expenditure of fleets in the Mediterranean or Lisbon, or
whether

whether it shall be for an Imperial Loan, or foreign subsidies, is exactly the same to the country ; for whilst the balance of trade is favorable, the money must return.

I do not mean to insinuate that foreign loans, or that foreign expenditures, are subjects of indifference to the country ; they are no doubt clear unequivocal losses, which the calamity of war has produced ; but my endeavour is, to distinguish correctly the effect which they produce on the general circulating coin, when they exceed, or when they fall short of the balance of trade. It is no doubt most ardently to be wished, that there should be no occasion for the exportation of bullion ; or in other words, that there should be perpetual peace ; but during war, one of the most essential services which commerce can render for the aid and assistance of the public, is to furnish from that treasure which

the balance of trade has contributed to accumulate during peace, the gold and silver which the exertions and exigencies of the state shall require for their operations abroad during the war. It is by such means alone, that the political and commercial powers have formed a combination of strength both for offensive and defensive operations, which has astonished Europe ; although from the lavish profuse manner in which they have been applied, they have not always produced their proper effect.

It was, therefore, not the nature or description of service, which rendered the Imperial Loan so injurious ; but so many drains on the bullion of the country existed previous thereto, and at the time, that the addition of such an enormous sum produced the most pernicious consequences. The alarm of the Bank, and their remonstrances, were

were well founded; and their situation, if such operations had continued, was pregnant with real danger. They had struggled, however, through the year 1796, and must finally have surmounted this difficulty, as any further Imperial Loan had been abandoned, and the foreign exchange was turning in favor of the country, when an event happened which was decisive on the fate of the Bank.

After what has been mentioned, it may be expected that the amount of the guineas in their possession must have been reduced to a low ebb, when the landing of a handful of French troops created an instantaneous general alarm, and occasioned a demand for money, to which neither gold nor silver in bullion could be applied, as nothing would be accepted but the circulating coin of the country. Persons of almost every description caught the alarm; tradesmen, mechanics, and particularly

particularly women and farmers, (to whom I am ashamed to add many of a superior class and rank) all wanted guineas, for the sole purpose of hoarding. In the year 1793, when confidence in the Notes of Country Banks, and in every other description of paper had vanished, those of the Bank of England circulated with the utmost freedom, and without the slightest hesitation or doubt. But on this occasion Bank Notes at first were considered almost as waste paper, so that it was impossible to satisfy the timid and ignorant with any other payment but guineas.

If this event had happened before the Bank had been drained for foreign services, it might have produced a temporary effect only, which they could have faced by means of their usual deposits, under a persuasion that the cause would soon be removed, on finding that the attempt on the part of the French was not supported.

supported. But it came at a moment when their stock of guineas was already too low, and rendered the calamitous measure to which they adverted, in my opinion, indispensable. The demand for guineas ceased, no doubt; not because the desire of obtaining them had abated, but because the Bankers and Merchants united firmly to support the Bank in their refusal to issue guineas, and to accept of their Notes instead thereof, as a circulating medium. The cause of the calamity originated in those drains which had previously existed, to supply the foreign loans, and foreign services, on behalf of Government, and which had never been properly combined with the capacity which the country possessed to supply them; but what produced the crisis was, the landing of the French troops.

The timidity which appeared in many very sensible men, on that occasion, surprised

me much : they must know the impossibility of obtaining a sum in guineas, in any degree proportionable to their property ; as every person had an equal right to be supplied, and would hoard as well as themselves. Whatever sum they could obtain (as property, from its nature, cannot be entirely converted, but is more or less fixed and immoveable) would serve only for a short time, when their general property must serve at last, for a purpose to which it is equally applicable from the first ; namely, that of exchange or barter. If the French could possibly land with an irresistible force ; if the Bank of England was annihilated ; if the public debt followed, accompanied with general confusion and convulsion, some order of things must either continue to exist, or soon be re-established : we know from authority more than human, what followed even a state of chaos. The circulating paper cannot be entirely destroyed ;
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it must in every event preserve a certain value : in the first place, it must liquidate, and at par, a large mass of engagements by a mutual exchange, as those who hold a large sum in paper have generally a large sum to pay : the balance which results, after such liquidation, will stand, however, in a very different predicament, and depends altogether on circumstances, but appears in such numerous intricate points of view, as to render a discussion impossible ; excepting only that I cannot consider those balances, even viewing them in their worst light, as of no value.

Property must always exist under every government, and cannot be annihilated ; its nominal value will vary considerably ; but its comparative value, although it may be affected for a time by accidental circumstances, will in the end be more or less the same.

The comparative advantage, therefore, of any one description over another, in cases of public convulsion, is at least very dubious, and opens a wide field for opinion. It depends, at the same time, upon the magnitude or value of such property: my argument applies chiefly to that which is considerable, for a small amount will admit of managements of which even a few thousand pounds are not susceptible. The depreciation or annihilation of property, is however a very different question; for in case of convulsion or general calamity, all must, or ought to suffer; many, or perhaps most, will endeavour to escape; but perhaps this is neither to the credit of their head or their heart. I must however add, that whatever may be their intention, they cannot succeed except in a certain degree. To explain my ideas more fully, on the subjects of paper and of property, I will beg leave to
state

state the probabilities of an investment to the amount of ten thousand pounds, in the case of an invasion, or even conquest of the country, by a foreign enemy, with a view to the security of the individual ; and for that purpose I will compare what I conceive to be two opposite extremes ; I mean wheat or corn, with Bank of England Notes. The sum of ten thousand pounds, vested in corn, will form a mass of considerable bulk, and cannot escape the knowledge of the neighbourhood ; it will no doubt preserve its comparative value more than any other article, because it is indispensable ; but in this superiority consists its disadvantage or danger : for what relates to the neighbourhood, they will pay for their purchases by an exchange of goods or labour, as far as their capacity will permit, by a transfer of debts to a certain extent ; and as the exchange and the transfer cannot suffice for the whole amount,

they may perhaps offer in payment for what remains the circulating medium of the time ; for persons in such situations cannot be possessed of gold or silver. If the proprietor accepts such payment, all objections against the circulating medium vanishes ; but as it is probable the wealthy proprietor or farmer will refuse, the neighbourhood will not starve, with the means of subsistence in view ; and then the common proverb may be literally verified, that hunger will break through stone walls. With regard to invaders, or suppose even that they are conquerors, they would demand corn as well as money ; and their requisitions would be more irresistible for corn, which cannot be concealed, than for articles which are less bulky and more easily kept from notice : these circumstances are independent of fire, and depreciation of quality. If it shall be said, that the objections are against the mafs,

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or amount, and not to the article, I must answer, that the effect will be the same, whether corn is withheld by one or by twenty persons. Its being withheld produces the consequences ; in the first place against the large masses, but finally against all ; and the same argument will apply against holding a stock of any article of superior use or necessity for the public, in cases of convulsion and danger.

The circumstances which would attend the Notes of the Bank of England do not require so much detail. Under every situation of calamity, convulsion, or invasion, most of the gold and silver would disappear, and something must be substituted. In such a predicament what substitute can equal the paper of the Bank of England ? the extent being so moderate, compared to the circulation of the country, and issuing totally independent of
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the Government. It would even be for the interest of an invading enemy to support a Bank so established; for by destroying it they would deprive themselves of the mean of drawing any advantage for a long period from a conquest. When the French took possession of Amsterdam, they were wise enough not to touch the Bank; and Bank money at Amsterdam is worth much more since that invasion, than it was before. I am therefore disposed to think it possible, that even in such an event as is now stated by way of supposition, paper of this description, instead of being the worst, would prove the best security in which property could be invested. At all events, a wheat stack may be consumed by fire, and the whole of the capital lost; but something must attach, in my opinion, to a Bank Note in the worst of times, so long as the independence of the Bank on Government shall be preserved, and
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that their paper in circulation doth not much exceed its present amount.

If I have explained my meaning, and am founded in my arguments, it will appear that convulsion will not operate partially, but generally upon property; and that the precipitancy with which one description of property is rejected, in preference to another, is not likely to produce the desired effect; but that all or most will have their comparative value. Perhaps it may illustrate this point still more, by observing, that if my neighbour, who is worth 50,000l. shall be reduced to 25,000l. whilst my fortune of 10,000l. is reduced to 5000l. and that the fortune of every person is reduced in the same proportion, our comparative situations will be the same, and we should enjoy the comforts and luxuries of life in the same degree. In short property of every description,

tion, land, corn, paper, &c. &c. all must suffer under a general convulsion; a part, more or less of each, will no doubt be lost; but a part of each must also remain.

If I entertain a favorable opinion of the paper of the Bank of England, it is natural that I should wish to see every endeavour used to strengthen the general confidence, and to protect it against the possibility of depreciation; and although I am persuaded that in case of absolute necessity the country could exist and prosper without the Bank; yet, so long as it can be maintained, and enjoy a well-founded confidence, the prosperity of the country will increase far more rapidly and extensively; at the same time, the ease and accommodation which accompany it must contribute very much to internal tranquillity.

Independent

Independent of mismanagement, the Bank may suffer from the following causes :

Convulsions in Country Banks, and country circulation, by which means too great and sudden a demand may arise, similar to that of 1793.

An invasion by the enemy producing general alarm.

Too large an export to the Continent of its bullion or coin, for foreign subsidies or services.

An improper influence of Government.

There are, no doubt, other circumstances of less importance, which either by direct or indirect means will produce an effect on the Bank, but they are not applicable to the

present moment, or they would require too much detail to investigate and explain ; and at all events they cannot apply to shake the confidence due to the Bank.

The first and third points have been already explained, and a remedy in part only has been proposed for the first. When the bankruptcy took place, and which I have no doubt was brought to a crisis by the trifling and contemptible circumstance already mentioned, the legislature thought proper to screen the Government, who were the cause, in consequence of the previous drains on the country for foreign services ; and the Bank, who were the defaulters, by making Bank Notes a legal tender as far as related to themselves. But the blameless suffering public were deprived of such a shield ; those Notes were not a legal tender between individuals, who were given to understand, that if they
were

were compelled to have recourse to a court of law, by means of sophistry and quibbling, they should have---not relief---but something which was never distinctly explained, as it never was correctly understood. Confidence in the Bank, however, has supplied the want of legal protection ; and it may now be asked, what detriment or inconvenience could have arisen, if the Notes had been made a legal tender for all ? It is a miserable subterfuge to suppose, that by such an arrangement the disgrace could be palliated, or the word bankruptcy be evaded. In all great movements, whether in mechanics or governments, or even in the intercourse of nations, the more simple, general, and intelligible the principle, the greater is the power, and the more certain is the effect. On such an occasion, it ought to have been one common cause, of Government, Bank, and people ; there could have been but one

opinion, as there was but one interest. The distinction was unjust and invidious, whilst the event has proved that it was wholly unnecessary.

The situation of the Bank is now totally altered; in consequence of the very high course of exchange with Hamburgh, which has produced a prodigious influx of gold and silver, whilst the panic has subsided, and confidence is generally restored. In this predicament, it merits serious consideration what ought to be done in regard to the act of parliament which will soon expire. Whether it should be suffered to expire? Whether it shall be renewed? Or, whether it shall be continued with alterations? And from the most mature consideration I am capable of giving to the subject, I am induced to prefer the last, namely, that Bank Notes should be made a legal tender generally, during the present

present war, under restrictions which I shall mention hereafter.

My chief reason is, that credit ought never to be subject to convulsions ; a change even from good to better ought not to be made, until there is almost a certainty of maintaining and preserving it in that position ; for a retrograde motion in public credit is productive of consequences which are incalculable. With this principle in view, I am averse to the Bank re-assuming their payments generally during the war, whilst there is a possibility of their being obliged to suspend them again.

We have experienced the consequences of the landing of only 1200 French ; and an enemy will avail themselves of every circumstance which can produce an alarm. I have
read

read and conversed with foreigners at many different periods of my life, on the subject of invasion ; and although young men will recommend and hazard every thing for the chance of personal fame ; yet I have been always impressed with an idea, that the judgment of the sober-minded, and particularly the scientific experienced men, always had two objects in view, namely, the possibility of success ; but in case of miscarriage, the dangerous effect an attempt might produce on the Bank of England, in consequence of spreading a general alarm. And admitting always the impossibility of making a serious impression on the country, it is an object of real importance to guard against the confusion (in pecuniary concerns) which must result from the attempt, unless the Bank shall be protected in the manner I have proposed. It is in vain to treat the consequences of
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an alarm as chimerical, when so many descriptions of persons possess property which exceeds in value the total amount of the circulating coin of the country. For instance, the farmers, who have grown rich by the war, and hold more circulating paper than any other description of persons, and which consists, in a great degree, of the Notes of the Country Banks at present: but the farmers have been distinguished for taking the lead in cases of alarm. It is unnecessary to enumerate, or to enter into further details, as every well-informed person must be capable of judging on this point.

We have also found by experience, that no inconvenience can arise to individuals, or the public; for every person can procure with ease, as much gold coin as he wants to supply
every

every common purpose. At the same time a power to withhold need not prevent the Bank from issuing as much coin as may be wanted, although it ought not to be issued with too liberal a hand, from the certainty of its being hoarded for a time, on the appearance of the most trifling alarm.

If this principle is adopted, and the conduct of the Directors shall be pure and correct, I am satisfied that it will promote confidence, as it must also increase the security of their Notes. But as the Directors are men, and of course fallible, it will be dangerous in the extreme to trust them with such power, without some efficient check and controul. They may, for the advantage of the proprietors, increase their circulating paper without bounds. Or, they may, under the influence of the minister, enter into loans or engagements beyond what the general security

and safety can justify. These objects can only be attained by limiting the amount to which the company shall be permitted to issue their Notes; and which, as observed before, ought not much to exceed the amount of what is at present in circulation. The precise sum, and the regulations which are requisite, must be the result of mature consideration, and of practical knowledge; and which will not be difficult to arrange, if the principle shall be admitted.

I am aware of all the objections which can be urged against the making paper of any description a legal tender; and I should have been forward in opposition to every such plan or proposal, if the Bank had not already stopped payment. But whilst we have suffered the disgrace, no serious bad consequences have arisen; yet, if the same disgrace shall happen a second time, we may not be equally

fortunate with regard to the consequences. I desire, however, to be understood, that I do not recommend Government paper of any description as a circulating medium ; between that, and the paper of a corporate, independent, responsible Company, there is a wide difference, a long interval indeed.

The Exchequer Bills of Government never can circulate, and never will be taken as a medium, because the public never can rely on the amount being confined within proper bounds. So long as they are paid, or can be absorbed in the revenue, soon after they become due, they are of use to the Executive Government, and a benefit to the public. But when the amount exceeds the means of liquidation, they become a dead weight, and clog every channel of the general circulation in such a manner as to compel the Minister to reduce them once more within proper bounds.

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If this were not the case, Exchequer Bills and Assignats would be synonymous terms, and ultimately experience the same fate. The Assignats issued originally under a plan and promise for their gradual extinction, but when it was found that they continued to issue, to an amount far beyond what was extinguished, the discount bore a proportion to that amount, and finally swallowed up the principal.

I never could understand the reason for the clamor that was raised, and the philippics that were pronounced in this country against assignats. We were induced to suppose, from what we heard and read, that the destruction of assignats in France was necessary for the salvation of Europe. I confess that it always appeared to me those advocates totally mistook their object, which I presume was, to distress France by every possible

possible means. They ought (I mean upon their principles) to have used every endeavour to encourage and support the assignats in France; because they would thereby have entailed an enormous debt on the country, for which taxes must have been imposed, soon or late, to defray the interest. What a situation the two countries would have been in, if peace could have been made, leaving the assignats in existence, with a discount of seventy or eighty per cent? thereby intailing upon the country the necessity of imposing taxes sufficient to pay the interest, and of course augmenting the price of labour in a proportionable degree. At present the debt of France is trifling, and the taxes, when peace comes, will scarcely affect the price of labour; whilst our own taxes, for the purpose of defraying the interest alone, will amount to full thirty shillings for every head; and which for every labourer, who generally pays for
many

many others besides himself, cannot be less than three or four times that sum. It may be very easily said, that the French would at all events have availed themselves of a sponge at the close of the war ; but experience authorises me to reply, that Republics are distinguished for preserving their faith towards the public creditor ; and the conduct of the French on this occasion will justify it, for they made long, unremitting exertions, to support the credit of their assignats, thro' various administrations of moderantism and terror ; nor did they abandon them, until every struggle had been made, and that there was a decided incapacity in the country to pay or to circulate. I know very well, that the magnitude of the public debt is not decisive on the fate of any country, but the price of labor is the leading prominent feature, where so much depends on foreign commerce for the support of that debt. At this moment

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no judgment can be formed, as we must conclude the war before any comparison can be made of our relative situations. The prospect is no doubt gloomy in the extreme, and the change may be aggravated from the extent of our present trade, which is temporary, and cannot, by any contrivance, be preserved after peace.

Amongst many other expedients to promote the circulation of assignats in France, when they bore a large discount ; one was, to fix the price of provisions, and every article at which the seller should be compelled to receive those assignats in payment, and which was called the law of the maximum. So long as the real discount on the assignats bore a tolerable proportion to the maximum price fixed on the provisions, all went on smooth and well ; but when the discount advanced, the provisions disappeared, and which was

chief cause of the distress and famine which prevailed in that country.

The same fate will infallibly attend all government paper, or paper of any description, whether Exchequer Bills, or Bank Notes, which may be issued beyond a capacity in the circulation of the country, to receive at par. Not even the terror of Robespierre could induce the farmers or graziers to sell corn and meat at the nominal price of the assignats: in a very short time, notwithstanding the dread of the guillotine, two prices were established by universal practice, the one for money, the other for assignats; the interval, however, had been dreadful, having produced real distress and famine.

I think it will be superfluous to add more, for the purpose of explaining the difference between government paper, which may be
issued

issued *ad libitum*, and that of the Bank of England; as a justification of the opinion I entertain, that the latter (under satisfactory restrictions) may be made a legal tender during the war, or at least under the present existing circumstances. It will not be sufficient however to say with Sir Thomas More, (on a very different occasion) *crede quod habes et habes*. The grounds on which confidence can be expected to rest must be fully explained, perfectly understood, and prove equally and generally satisfactory.

I have therefore to propose, that the principle on which Country Banks are established, should be taken into consideration; for the purpose of preventing, as far as the nature of the case will permit, such convulsions as happened to commercial credit and the circulation of the country in the year 1793.

That

Baring, Franz

Observations on the establishment of the Bank of England and on the Paper
circulation of the country

London 1797

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